

CITY OF PAULLINA
INDEPENDENT AUDITOR'S REPORTS

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

David A. Maske
Certified Public Accountant
110 West 4th Street – Suite # 205
Spencer, Iowa 51301

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CITY OF PAULLINA, IOWA

OFFICIALS

(Before January, 2005)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Struve	Mayor	January 2006
Patrick Hill	Mayor Pro-Tem	January 2008
David Honkomp	Council Member	January 2008
John Ihle	Council Member	January 2008
Ed Bettin	Council Member	January 2006
Garth Hurley	Council Member	January 2006

(After January, 2005)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Struve	Mayor	January 2006
Patrick Hill	Mayor Pro-Tem	January 2008
David Honkomp	Council Member	January 2008
John Ihle	Council Member	January 2008
Ed Bettin	Council Member	January 2006
Garth Hurley	Council Member	January 2006
Sandy Fritz	City Clerk/Administrator	January 2006
Johnene Altman	Treasurer	January 2006
Roger Bindner	Attorney	January 2006

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits, contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

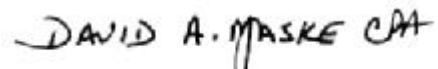
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, as of June 30, 2005 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated October 14, 2005 on my consideration of the City of Paullina's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 6 and 15 are not required parts of the basic financial statements, but are supplementary information required by the governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.


DAVID A. MASKE
Certified Public Accountant

October 14, 2005
Spencer, Iowa

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Receipts of the City-wide activities decreased 2.0%, or approximately \$36,000 from fiscal 2004 to fiscal 2005.
- Disbursements increased 12.9%, or approximately \$230,000 in fiscal 2005 from fiscal 2004.
- The City's total cash basis net assets decreased 13.9%, or approximately \$265,000 from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The City's Financial Statement consists of a Statement of Receipts, Disbursements and Cash Balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Receipts, Disbursements and Changes in Cash Balances reports information which helps answer this question.

The Statement of Receipts, Disbursements and Changes in Cash Balances presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$650,638 to \$806,486. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts and Transfers:		
Program Receipts:		
Charges for Service.....	\$ 107,011	\$ 96,680
General Receipts		
Property Tax.....	225,099	211,872
Special Assessments	59,413	75,451
Tax Increment Financing Collections.....	21,507	17,614
Local Option Sales Tax	76,608	73,613
Intergovernmental	100,753	103,234
Use of Money and Property	30,286	21,065
Licenses and Permits	2,100	3,624
Other General Receipts.....	51,887	60,055
Sale of Capital Assets	80,245	-0-
Net Transfers.....	419,926	13,244
Total Receipts and Transfers	<u>\$ 1,174,835</u>	<u>\$ 676,452</u>
Disbursements:		
Public Safety	\$ 198,757	\$ 228,346
Public Works	141,432	202,675
Health and Social Services	3,750	3,750
Culture and Recreation	75,097	80,087
Community and Economic Development	1,000	368
General Government	63,849	67,830
Debt Service	113,649	117,557
Capital Projects.....	421,454	-0-
Total Disbursements	<u>\$ 1,018,988</u>	<u>\$ 700,613</u>
Increase (Decrease) in Cash Basis Net Assets	\$ 155,847	\$ (24,161)
Cash Basis Net Assets - Beginning of Year	<u>650,638</u>	<u>674,799</u>
Cash Basis Net Assets - End of Year	<u>\$ 806,485</u>	<u>\$ 650,638</u>

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts:		
Operating Receipts:		
Water.....	\$ 182,465	\$ 164,441
Electric	576,388	556,679
Sewer	93,090	93,213
Telecom	101,907	169,626
Interest.....	30,380	30,208
Net Bond Proceeds	-0-	84,480
Total	<u>\$ 984,230</u>	<u>\$ 1,098,647</u>
Disbursements:		
Operating Disbursements:		
Water	\$ 103,002	\$ 135,525
Electric	502,903	549,813
Sewer	122,671	95,137
Telecom	1,500	111,061
Debt Service	254,689	168,770
Net Transfers Out	419,926	13,244
Total	<u>\$ 1,404,691</u>	<u>\$ 1,073,550</u>
Net Change in Cash Balance	\$ (420,461)	\$ 25,097
Cash Basis Net Assets - Beginning of Year	<u>\$ 1,260,158</u>	<u>1,235,061</u>
Cash Basis Net Assets - End of Year	<u>\$ 839,697</u>	<u>\$ 1,260,158</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Paullina completed the year, its governmental funds reported a combined fund balance of \$806,485, an increase of \$155,847 over last year's total of \$650,638. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$94,639 from the prior year.
- The Road Use Tax Fund cash balance increased by \$60,420 during the fiscal year.
- The Urban Renewal Tax Increment Fund cash balance increased by \$5,933 during the year.
- The Debt Service Fund cash balance increased by \$5,832 during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$75,236 to \$221,341
- The Electric Fund cash balance decreased by \$481,348 to \$284,338.
- The Sewer Fund cash balance decreased by \$34,268 to \$50,917.
- The Telecom Fund cash balance increased by \$19,919 to \$283,101.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2005 to June 30, 2004 follows:

	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
G.O. Bonds and Notes	\$ 305,000	\$ 385,000
Special Assessment Notes	70,000	80,000
Sewer Revolving Loan Notes	144,000	188,000
Electric Revenue Notes	960,000	1,025,000
Telecommunication:		
Revenue Notes	900,000	950,000
Total	<u>\$ 2,379,000</u>	<u>\$ 2,628,000</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandy Fritz, City Clerk, Paullina, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF PAULLINA
Statement of Activities and Net Assets – Cash Basis
For the Year Ended June 30, 2005

	<u>-----Program Receipts-----</u>			<u>-----Net (Disbursements) Receipts and Changes in Cash Basis Net Assets-----</u>		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:						
Government Activities:						
Public Safety.....	\$ 198,757	\$ 4,500	\$ -0-	\$ (194,257)	\$ -0-	\$ (194,257)
Public Works.....	141,432	98,677	93,456	50,701	-0-	50,701
Health and Social Services.....	3,750	-0-	-0-	(3,750)	-0-	(3,750)
Culture and Recreation.....	75,097	9,334	-0-	(65,763)	-0-	(65,763)
Community and Economic Development	1,000	-0-	-0-	(1,000)	-0-	(1,000)
General Government.....	63,849	16,944	-0-	(46,905)	-0-	(46,905)
Debt Service.....	113,649	-0-	-0-	(113,649)	-0-	(113,649)
Capital Projects	421,454	-0-	-0-	(421,454)	-0-	(421,454)
Total Governmental Activities	<u>\$ 1,018,988</u>	<u>\$ 129,455</u>	<u>\$ 93,456</u>	<u>\$ (796,077)</u>	<u>\$ -0-</u>	<u>\$ (796,077)</u>
Business Type Activities:						
Water.....	\$ 103,002	\$ 182,465	\$ -0-	\$ -0-	\$ 79,463	\$ 79,463
Sewer.....	174,548	93,090	-0-	-0-	(81,458)	(81,458)
Electric	622,445	576,388	-0-	-0-	(46,057)	(46,057)
Telecom.....	84,770	101,907	-0-	-0-	17,137	17,137
Total Business Type Activities	<u>\$ 984,765</u>	<u>\$ 953,850</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (30,915)</u>	<u>\$ (30,915)</u>
Total	<u>\$ 2,003,753</u>	<u>\$ 1,083,305</u>	<u>\$ 93,456</u>	<u>\$ (796,077)</u>	<u>\$ (30,915)</u>	<u>\$ (826,992)</u>
General Receipts:						
Property Tax Levied For:						
General Purposes.....				\$ 215,003	\$ -0-	\$ 215,003
Tax Increment Financing				21,507	-0-	21,507
Debt Service.....				69,509	-0-	69,509
Local Option Sales Tax.....				76,608	-0-	76,608
Unrestricted Interest on Investments.....				15,442	30,380	45,822
Sale of Assets.....				80,245	-0-	80,245
Miscellaneous				53,684	-0-	53,684
Transfers.....				419,926	(419,926)	-0-
Total General Receipts and Transfers				<u>\$ 951,924</u>	<u>\$ (389,546)</u>	<u>\$ 562,378</u>
Change in Cash Basis Net Assets				\$ 155,847	\$ (420,461)	\$ (264,614)
Cash Basis Net Assets – Beginning of Year				650,638	1,260,158	1,910,796
Cash Basis Net Assets – End of Year				<u>\$ 806,485</u>	<u>\$ 839,697</u>	<u>\$ 1,646,182</u>
Cash Basis Net Assets						
Restricted:						
Streets.....				\$ -0-	\$ -0-	\$ -0-
Urban Renewal Purpose.....				-0-	-0-	-0-
Debt Service.....				215,944	735,953	951,897
Other Purposes				286,504	-0-	286,504
Unrestricted				304,037	103,744	407,781
Total Cash Basis Net Assets				<u>\$ 806,485</u>	<u>\$ 839,697</u>	<u>\$ 1,646,182</u>

CITY OF PAULLINA
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
For the Year Ended June 30, 2005

	<u>-----Special Revenue-----</u>					
	General	Road Use Tax	Urban Renewal Tax Increment	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:						
Property Tax	\$ 169,788	\$ -0-	\$ -0-	\$ 10,096	\$ 45,215	\$ 225,099
Tax Increment Financing Collections.....	-0-	-0-	21,507	-0-	-0-	21,507
Other City Tax.....	-0-	-0-	-0-	-0-	76,608	76,608
Licenses and Permits.....	2,100	-0-	-0-	-0-	-0-	2,100
Use of Money and Property.....	23,244	-0-	426	6,072	544	30,286
Intergovernmental	7,297	93,456	-0-	-0-	-0-	100,753
Charges for Services.....	107,011	-0-	-0-	-0-	-0-	107,011
Special Assessments.....	-0-	-0-	-0-	59,413	-0-	59,413
Miscellaneous	51,887	-0-	-0-	-0-	-0-	51,887
Total Receipts	<u>\$ 361,327</u>	<u>\$ 93,456</u>	<u>\$ 21,933</u>	<u>\$ 75,581</u>	<u>\$ 122,367</u>	<u>\$ 674,664</u>
Disbursements:						
Operating:						
Public Safety.....	\$ 167,514	\$ -0-	\$ -0-	\$ -0-	\$ 31,243	\$ 198,757
Public Works.....	108,243	33,036	-0-	-0-	153	141,432
Health and Social Services	3,750	-0-	-0-	-0-	-0-	3,750
Culture and Recreation	72,061	-0-	-0-	-0-	3,036	75,097
Community and Economic Development.....	1,000	-0-	-0-	-0-	-0-	1,000
General Government.....	62,955	-0-	-0-	-0-	894	63,849
Debt Service.....	-0-	-0-	-0-	113,649	-0-	113,649
Capital Projects	-0-	-0-	-0-	-0-	421,454	421,454
Total Disbursements	<u>\$ 415,523</u>	<u>\$ 33,036</u>	<u>\$ -0-</u>	<u>\$ 113,649</u>	<u>\$ 456,780</u>	<u>\$ 1,018,988</u>
Excess (Deficiency) of Receipts over Disbursements	\$ (54,196)	\$ 60,420	\$ 21,933	\$ (38,068)	\$ (334,413)	\$ (344,324)
Other Financing Sources (Uses):						
Operating Transfers In (Out)	\$ 68,590	\$ -0-	\$ (16,000)	\$ 43,900	\$ 323,436	\$ 419,926
Sale of Capital Assets.....	80,245	-0-	-0-	-0-	-0-	80,245
Total Other Financing Sources (Uses)	<u>\$ 148,835</u>	<u>\$ -0-</u>	<u>\$ (16,000)</u>	<u>\$ 43,900</u>	<u>\$ 323,436</u>	<u>\$ 500,171</u>
Net Change in Cash Balances	\$ 94,639	\$ 60,420	\$ 5,933	\$ 5,832	\$ (10,977)	\$ 155,847
Cash Balances – Beginning of Year	209,398	195,575	12,706	210,112	22,847	650,638
Cash Balances – End of Year	<u>\$ 304,037</u>	<u>\$ 255,995</u>	<u>\$ 18,639</u>	<u>\$ 215,944</u>	<u>\$ 11,870</u>	<u>\$ 806,485</u>
Cash Basis Net Assets						
Restricted:						
Debt Service.....	\$ -0-	\$ -0-	\$ -0-	\$ 215,944	\$ -0-	\$ 215,944
Unrestricted:						
General Fund.....	304,037	-0-	-0-	-0-	-0-	304,037
Special Revenue Fund	-0-	255,995	18,639	-0-	16,867	291,501
Capital Projects Fund	-0-	-0-	-0-	-0-	(4,997)	(4,997)
Total Cash Basis Fund Balances	<u>\$ 304,037</u>	<u>\$ 255,995</u>	<u>\$ 18,639</u>	<u>\$ 215,944</u>	<u>\$ 11,870</u>	<u>\$ 806,485</u>

CITY OF PAULLINA
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Proprietary Funds
For the Year Ended June 30, 2005

	Water	Electric	Sewer	Telecom	Total
Operating Receipts:					
Charges for Services.....	\$ 166,217	\$ 544,646	\$ 91,800	\$ 101,907	\$ 904,570
Sales Tax.....	11,141	22,140	897	-0-	34,178
Refunds and Reimbursements.....	4,834	5,927	393	-0-	11,154
Deposits.....	-0-	3,069	-0-	-0-	3,069
Miscellaneous	273	606	-0-	-0-	879
Total Operating Receipts	\$ 182,465	\$ 576,388	\$ 93,090	\$ 101,907	\$ 953,850
Operating Disbursements:					
Business Type Activities:					
Personal Services.....	\$ 46,990	\$ 130,780	\$ 69,986	\$ -0-	\$ 247,756
Contractual Services	5,955	14,489	14,892	1,500	36,836
Economic Development	2,504	-0-	-0-	-0-	2,504
Purchase Current.....	-0-	260,251	-0-	-0-	260,251
Services and Commodities.....	36,427	73,250	36,889	-0-	146,566
Sales Tax.....	11,126	21,980	904	-0-	34,010
Capital Outlay	-0-	-0-	-0-	-0-	-0-
Deposit Refunds	-0-	2,153	-0-	-0-	2,153
Total Operating Disbursements	\$ 103,002	\$ 502,903	\$ 122,671	\$ 1,500	\$ 730,076
Excess (Deficiency) of Operating Receipts					
Over Operating Disbursements	\$ 79,463	\$ 73,485	\$ (29,581)	\$ 100,407	\$ 223,774
Non-Operating Receipts (Disbursements):					
Debt Service	\$ -0-	\$ (119,542)	\$ (51,877)	\$ (83,270)	\$ (254,689)
Interest on Investments.....	3,973	23,625	-0-	2,782	30,380
Total	\$ 3,973	\$ (95,917)	\$ (51,877)	\$ (80,488)	\$ (224,309)
Excess (Deficiency) of Receipts over Disbursements	\$ 83,436	\$ (22,432)	\$ (81,458)	\$ 19,919	\$ (535)
Operating Transfers In (Out)	(8,200)	(458,916)	47,190	-0-	(419,926)
Net Change in Cash Balances	\$ 75,236	\$ (481,348)	\$ (34,268)	\$ 19,919	\$ (420,461)
Cash Balances – Beginning of Year	146,105	765,686	85,185	263,182	1,260,158
Cash Balances – End of Year	\$ 221,341	\$ 284,338	\$ 50,917	\$ 283,101	\$ 839,697
Cash Basis Fund Balances					
Reserved for Debt Services	\$ 42,606	\$ 529,044	\$ 45,902	\$ 118,401	\$ 735,953
Unreserved	178,735	(244,706)	5,015	164,700	103,744
Total Cash Basis Fund Balances	\$ 221,341	\$ 284,338	\$ 50,917	\$ 283,101	\$ 839,697

CITY OF PAULLINA
Notes to Financial Statements
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, and electrical utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Paullina has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF PAULLINA
Notes to Financial Statements
June 30, 2005

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the telecom system.

C. Measurement Focus and Basis of Accounting

The City of Paullina maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function.

NOTE 2 - DEPOSITS AND POOLED INVESTMENTS:

The City's deposits at June 30, 2005 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF PAULLINA
Notes to Financial Statements
June 30, 2005

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2005; however the City's time deposits were as follows:

Certificates of Deposit \$ 791,978

NOTE 3 - BONDS AND NOTES PAYABLE:

Annual debt service requirements to maturity for General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Revolving Loan Fund	
	Principal	Interest	Principal	Interest
2006.....	\$ 45,000	\$ 14,287	\$ 46,000	\$ 6,034
2007.....	50,000	12,293	48,000	4,106
2008.....	55,000	10,040	50,000	2,095
2009.....	55,000	7,510	-0-	-0-
2010.....	55,000	4,930	-0-	-0-
2011.....	15,000	2,295	-0-	-0-
2012.....	15,000	1,545	-0-	-0-
2013.....	15,000	780	-0-	-0-
2014.....	-0-	-0-	-0-	-0-
2015.....	-0-	-0-	-0-	-0-
2016.....	-0-	-0-	-0-	-0-
TOTAL	\$ 305,000	\$ 53,680	\$ 144,000	\$ 12,235

Year Ending June 30	Special Assessment Capital Loan		Electric Revenue Capital Loan Notes Issued 2-1-01	
	Principal	Interest	Principal	Interest
2006.....	\$ 10,000	\$ 3,575	\$ 70,000	\$ 50,975
2007.....	10,000	3,125	70,000	47,475
2008.....	10,000	2,650	75,000	43,940
2009.....	10,000	2,150	80,000	40,115
2010.....	10,000	1,635	80,000	35,995
2011.....	10,000	1,105	85,000	31,835
2012.....	10,000	560	90,000	27,330
2013.....	-0-	-0-	95,000	22,515
2014.....	-0-	-0-	100,000	17,385
2015.....	-0-	-0-	105,000	11,935
2016.....	-0-	-0-	110,000	6,160
TOTAL	\$ 70,000	\$ 14,800	\$ 960,000	\$ 335,660

CITY OF PAULLINA
Notes to Financial Statements
June 30, 2005

Year Ending June 30	Telecommunications Revenue Capital Loan Notes Issued 4-1-04		Total	
	Principal	Interest	Principal	Interest
2006.....	\$ 50,000	\$ 35,013	\$ 221,000	\$ 109,884
2007.....	55,000	33,937	233,000	100,936
2008.....	55,000	32,563	245,000	91,288
2009.....	55,000	30,995	200,000	80,770
2010.....	55,000	29,235	200,000	71,795
2011.....	60,000	27,338	170,000	62,573
2012.....	60,000	25,117	175,000	54,552
2013.....	65,000	22,777	175,000	46,072
2014.....	65,000	20,145	165,000	37,530
2015.....	70,000	17,415	175,000	29,350
2016.....	70,000	14,405	180,000	20,565
2017.....	75,000	11,290	75,000	11,290
2018.....	80,000	7,840	80,000	7,840
2019.....	85,000	4,080	85,000	4,080
TOTAL	<u>\$ 900,000</u>	<u>\$ 312,150</u>	<u>\$ 2,379,000</u>	<u>\$ 728,525</u>

NOTE 4 - PENSION AND RETIREMENT BENEFITS:

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$11,288, \$13,627, and \$14,120, respectively, equal to the required contributions for each year.

NOTE 5 - COMPENSATED ABSENCES:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2005 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 2,470</u>

This liability has been computed based on rates of pay as of June 30, 2005.

As sick leave is not payable upon termination, retirement or death, the minimum accumulated sick leave is not presented as part of these financial statements.

NOTE 6 - RISK MANAGEMENT:

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF PAULLINA
Notes to Financial Statements
June 30, 2005

NOTE 7 – TELECOMMUNICATIONS PROJECT:

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

NOTE 8 – INTERFUND TRANSFERS:

The detail of interfund transfers for the year ended June 30, 2005, is as follows:

<u>Transfer to:</u>	<u>Transfer from:</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 4,753
	Local Option Sales Tax	<u>63,837</u>
		<u>\$ 68,590</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 12,803
	Enterprise:	
	Water	8,200
	Electric	<u>22,897</u>
		<u>\$ 43,900</u>
Sewer	Enterprise:	
	Electric	<u>\$ 47,190</u>
Capital Projects	Enterprise:	
	Electric	\$ 388,829
	Urban Renewal Tax Increment	<u>16,000</u>
		<u>\$ 404,829</u>
	Total	<u>\$ 564,509</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Paullina
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information
 Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	-----Budgeted Amounts-----		Final to Net Variance
					Original	Final	
Receipts:							
Property Tax	\$ 225,099	\$ -0-	\$ -0-	\$ 225,099	\$ 221,332	\$ 221,332	\$ 3,767
Tax Increment Financing Collections.....	21,507	-0-	-0-	21,507	16,000	16,000	5,507
Other City Tax.....	76,608	-0-	-0-	76,608	69,674	69,674	6,934
Licenses and Permits	2,100	-0-	-0-	2,100	2,195	2,195	(95)
Use of Money and Property.....	30,286	-0-	-0-	30,286	51,687	51,687	(21,401)
Intergovernmental.....	100,753	-0-	-0-	100,753	105,253	105,253	(4,500)
Charges for Service.....	107,011	984,230	-0-	1,091,241	1,080,377	1,080,377	10,864
Special Assessments.....	59,413	-0-	-0-	59,413	57,116	57,116	2,297
Miscellaneous.....	51,887	-0-	-0-	51,887	15,810	48,912	2,975
Total Receipts	<u>\$ 674,664</u>	<u>\$ 984,230</u>	<u>\$ -0-</u>	<u>\$ 1,658,894</u>	<u>\$ 1,619,444</u>	<u>\$ 1,652,546</u>	<u>\$ 6,348</u>
Disbursements:							
Public Safety.....	\$ 198,757	\$ -0-	\$ -0-	\$ 198,757	\$ 173,528	\$ 210,309	\$ 11,552
Public Works.....	141,432	-0-	-0-	141,432	186,611	186,611	45,179
Health and Social Services.....	3,750	-0-	-0-	3,750	4,000	4,000	250
Culture and Recreation.....	75,097	-0-	-0-	75,097	71,749	105,749	30,652
Community and Economic Development	1,000	-0-	-0-	1,000	1,000	1,000	-0-
General Government	63,849	-0-	-0-	63,849	77,715	77,715	13,866
Debt Service	113,649	-0-	-0-	113,649	113,297	113,297	(352)
Capital Projects.....	421,454	-0-	-0-	421,454	-0-	433,847	12,393
Business Type Activities.....	-0-	984,765	-0-	984,765	1,082,958	1,136,228	151,463
Total Disbursements	<u>\$ 1,018,988</u>	<u>\$ 984,765</u>	<u>\$ -0-</u>	<u>\$ 2,003,753</u>	<u>\$ 1,710,858</u>	<u>\$ 2,268,756</u>	<u>\$ 265,003</u>
Excess (Deficiency) of Receipts Over Disbursements	\$ (344,324)	\$ (535)	\$ -0-	\$ (344,859)	\$ (91,414)	\$ (616,210)	\$ 271,351
Other Financing Sources, Net	<u>500,171</u>	<u>(419,926)</u>	<u>-0-</u>	<u>80,245</u>	<u>500</u>	<u>500</u>	<u>79,745</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Sources.....	\$ 155,847	\$ (420,461)	\$ -0-	\$ (264,614)	\$ (90,914)	\$ (615,710)	<u>\$ 351,096</u>
Balances – Beginning of Year	<u>650,638</u>	<u>1,260,158</u>	<u>-0-</u>	<u>1,910,796</u>	<u>1,573,655</u>	<u>1,573,655</u>	
Balances – End of Year	<u>\$ 806,485</u>	<u>\$ 839,697</u>	<u>\$ -0-</u>	<u>\$ 1,646,182</u>	<u>\$ 1,482,741</u>	<u>\$ 957,945</u>	

CITY OF PAULLINA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$557,898. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Debt Service function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULLINA
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Emergency	Employee Benefits	Local Option Sales Tax	Capital Projects	Total
Receipts:					
Property Taxes.....	\$ 4,710	\$ 40,505	\$ -0-	\$ -0-	\$ 45,215
Other City Tax.....	-0-	-0-	76,608	-0-	76,608
Use of Money and Property.....	43	250	32	219	544
Total Receipts	<u>\$ 4,753</u>	<u>\$ 40,755</u>	<u>\$ 76,640</u>	<u>\$ 219</u>	<u>\$ 122,367</u>
Disbursements:					
Operating:					
Public Safety.....	\$ -0-	\$ 31,243	\$ -0-	\$ -0-	\$ 31,243
Public Works.....	-0-	153	-0-	-0-	153
Health and Social Services	-0-	-0-	-0-	-0-	-0-
Culture and Recreation	-0-	3,036	-0-	-0-	3,036
General Government.....	-0-	894	-0-	-0-	894
Debt Service:					
Capital Projects.....	-0-	-0-	-0-	421,454	421,454
Total Disbursements	<u>\$ -0-</u>	<u>\$ 35,326</u>	<u>\$ -0-</u>	<u>\$ 421,454</u>	<u>\$ 456,780</u>
Excess (Deficiency) of Receipts Over Disbursements	\$ 4,753	\$ 5,429	\$ 76,640	\$ (421,235)	\$ (334,413)
Other Financing Sources (Uses):					
Transfers In (Out).....	(4,753)	-0-	(76,640)	404,829	323,436
Net Changes in Cash Balances	\$ -0-	\$ 5,429	\$ -0-	\$ (16,406)	\$ (10,977)
Cash Balances – Beginning of Year	-0-	11,438	-0-	11,409	22,847
Cash Balances – End of Year	<u>\$ -0-</u>	<u>\$ 16,867</u>	<u>\$ -0-</u>	<u>\$ (4,997)</u>	<u>\$ 11,870</u>
Cash Basis Fund Balances					
Unreserved:					
Special Revenue Funds.....	\$ -0-	\$ 16,867	\$ -0-	\$ -0-	\$ 16,867
Capital Project Fund.....	-0-	-0-	-0-	(4,997)	(4,997)
Total Cash Basis Fund Balances	<u>\$ -0-</u>	<u>\$ 16,867</u>	<u>\$ -0-</u>	<u>\$ (4,997)</u>	<u>\$ 11,870</u>

CITY OF PAULLINA
Statement of Indebtedness
Year Ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General Obligation Notes:									
Street Improvements	April 1, 1994	4.25-5.75%	\$ 290,000	\$ 35,000	\$ -0-	\$ 35,000	\$ -0-	\$ 2,013	\$ -0-
Essential Corporate Purpose	May 1, 1999	4.10-4.75%	340,000	225,000	-0-	35,000	190,000	10,325	-0-
Essential Corporate Purpose	June 1, 2003	3.60-5.20%	135,000	125,000	-0-	10,000	115,000	5,910	-0-
			<u>\$ 765,000</u>	<u>\$ 385,000</u>	<u>\$ -0-</u>	<u>\$ 80,000</u>	<u>\$ 305,000</u>	<u>\$ 18,248</u>	<u>\$ -0-</u>
Special Assessment Notes:									
Street Improvements	June 1, 2002	3.75-5.60%	<u>\$ 93,000</u>	<u>\$ 80,000</u>	<u>\$ -0-</u>	<u>\$ 10,000</u>	<u>\$ 70,000</u>	<u>\$ 4,000</u>	<u>\$ -0-</u>
Revolving Loan Fund:									
Sewage Treatment Works	February 13, 1999	4.19%	<u>\$ 418,000</u>	<u>\$ 188,000</u>	<u>\$ -0-</u>	<u>\$ 44,000</u>	<u>\$ 144,000</u>	<u>\$ 7,877</u>	<u>\$ -0-</u>
Electric Revenue:									
Capital Loan Notes	February 1, 2001	4.70-5.60%	<u>\$1,200,000</u>	<u>\$1,025,000</u>	<u>\$ -0-</u>	<u>\$ 65,000</u>	<u>\$ 960,000</u>	<u>\$ 54,193</u>	<u>\$ -0-</u>
Telecommunications									
Revenue Capital Notes	April 1, 2005	1.80-4.80%	<u>\$ 950,000</u>	<u>\$ 950,000</u>	<u>\$ -0-</u>	<u>\$ 50,000</u>	<u>\$ 900,000</u>	<u>\$ 32,920</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

Schedule 3 (page 19) is found on an Excel Spreadsheet

Press the Ctrl key while clicking on the link below to open this file

[Paullina.xls](#)

**Right click on the page for the prior year, and copy it to a new sheet.
Make the appropriate changes, and collate into the finished Word pages**

CITY OF PAULLINA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST FOUR YEARS

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Receipts:				
Property Tax	\$ 225,099	\$ 211,872	\$ 228,905	\$ 216,410
Tax Increment Financing Collections	21,507	17,614	-0-	-0-
Other City Tax.....	76,608	73,613	74,835	72,757
Licenses and Permits.....	2,100	3,624	761	739
Use of Money and Property	30,286	21,065	25,822	39,414
Intergovernmental	100,753	103,234	116,254	118,119
Charges for Services	107,011	96,680	88,145	92,306
Special Assessments	59,413	75,451	86,484	86,012
Miscellaneous	51,887	60,055	40,925	117,978
Sale of Capital Assets	<u>80,245</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 754,909</u>	<u>\$ 663,208</u>	<u>\$ 662,131</u>	<u>\$ 743,735</u>
Disbursements:				
Operating:				
Public Safety	\$ 198,757	\$ 228,346	\$ 161,320	\$ 151,746
Public Works	141,432	203,043	184,518	110,858
Health and Social Services	3,750	3,750	-0-	-0-
Culture and Recreation	75,097	80,087	76,330	82,986
Community and Economic Development .	1,000	-0-	8,801	3,929
General Government.....	63,849	67,830	61,439	59,266
Debt Service	113,649	117,557	91,368	82,288
Capital Projects.....	<u>421,454</u>	<u>-0-</u>	<u>9,994</u>	<u>330,889</u>
Total	<u>\$ 1,018,988</u>	<u>\$ 700,613</u>	<u>\$ 593,770</u>	<u>\$ 821,962</u>

See accompanying independent auditor's report.

CITY OF PAULLINA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCE
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	GENERAL	LIBRARY	TOTAL
Receipts:			
Property Tax	\$ 169,788	\$ -0-	\$ 169,788
Licenses and Permits	2,100	-0-	2,100
Use of Money and Property:			
Interest	8,186	214	8,400
Rent	14,844	-0-	14,844
Intergovernmental:			
Bank Franchise	1,797	-0-	1,797
County	-0-	5,500	5,500
Charges for Service:			
Garbage	71,261	-0-	71,261
Fire Service	4,500	-0-	4,500
Ambulance	27,416	-0-	27,416
Library Fees	-0-	3,834	3,834
Miscellaneous:			
Reimbursements and Refund	13,154	-0-	13,154
Donations and Grants	33,102	-0-	33,102
Miscellaneous	3,985	1,646	5,631
Total Receipts	<u>\$ 350,133</u>	<u>\$ 11,194</u>	<u>\$ 361,327</u>
Disbursements:			
Public Safety:			
Police	\$ 89,408	\$ -0-	\$ 89,408
Fire	60,302	-0-	60,302
Ambulance	17,804	-0-	17,804
Public Works:			
Solid Waste	61,099	-0-	61,099
Airport	4,663	-0-	4,663
Street Maintenance	32,821	-0-	32,821
Street Lights	7,601	-0-	7,601
Traffic Safety	2,059	-0-	2,059
Health and Social Services	3,750	-0-	3,750
Culture and Recreation:			
Recreation	12,000	-0-	12,000
Parks	3,259	-0-	3,259
Cemetery	5,000	-0-	5,000
Library	24,520	27,282	51,802
Community and Economic Development	1,000	-0-	1,000
General Government:			
Mayor – Council	12,112	-0-	12,112
City Clerk	24,177	-0-	24,177
Professional Services	11,328	-0-	11,328
General	1,510	-0-	1,510
City Hall	13,828	-0-	13,828
Total Disbursements	<u>\$ 388,241</u>	<u>\$ 27,282</u>	<u>\$ 415,523</u>
Excess (Deficiency) of Receipts over Disbursements	\$ (38,108)	\$ (16,088)	\$ (54,196)
Other Financing Sources (Uses):			
Sale of Capital Assets	80,245	-0-	80,245
Transfers In (Out)	48,930	19,660	68,590
Net	\$ 91,067	\$ 3,572	\$ 94,639
Cash Balances – Beginning of Year	<u>179,623</u>	<u>29,775</u>	<u>209,398</u>
Cash Balances – End of Year	<u>\$ 270,690</u>	<u>\$ 33,347</u>	<u>\$ 304,037</u>
Cash Basis Fund Balances:			
Unreserved:			
General Fund	<u>\$ 270,690</u>	<u>\$ 33,347</u>	<u>\$ 304,037</u>

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

I have audited the financial statements of the City of Paullina, Iowa, as of and for the year ended June 30, 2005, and have issued my report thereon dated October 14, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Paullina's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Paullina's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 05-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 05-I-A.

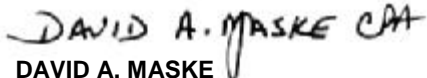
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paullina's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paullina and other parties whom the City of Paullina may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Paullina during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.


DAVID A. MASKE
Certified Public Accountant

October 14, 2005

CITY OF PAULLINA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

PART I - FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response accepted.

PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:

05-II-A Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the Debt Service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget was amended, however we were not aware this function was in excess of budget.

Conclusion - Response accepted.

05-II-C Questionable Disbursements – I noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

05-II-D Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

05-II-E Business Transactions - There were no business transactions between the City and City officials or employees noted.

05-II-F Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

05-II-G Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

05-II-H Revenue Notes - The City was in compliance with the requirements of its revenue notes.

05-II-I Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

05-II-J Financial Condition –The Capital Projects Fund had a deficit balance of \$4,997 at June 30, 2005.

Recommendation - The City should consider alternatives to eliminate this deficit.

Response – The deficit will be eliminated through the receipt of tax revenues.

Conclusion - Response accepted.